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HEADLINE: Moody's lowers Federated's debt rating one notch

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NEW YORK, Feb 27 (Reuters) - Moody's Investors Service on Tuesday lowered its rating on Federated Department Stores by one notch, citing a planned boost in share buybacks and the weak performance of its acquired May stores.

Federated, the parent of Macy's and Bloomingdale's, said on Tuesday its board approved a $4 billion increase in its stock buyback program.

Share buybacks often weaken a company's credit quality because they use up cash or increase debt without a corresponding increase in assets.

Federated converted more than 400 former May stores, which operated under names including Foley's and Hecht's, to the Macy's nameplate last year.

The transition to Federated's less promotional pricing strategy has been more challenging than expected, Moody's said.

Moody's downgraded Federated's rating to "Baa2," the second-lowest investment grade, from "Baa1." The outlook is stable, indicating another rating change is not expected over the next 12 to 18 months.

The stable outlook reflects the cushion that Federated's solid cash flow and department store franchise provide for its somewhat more aggressive financial policy, Moody's said.

Another rating agency, Standard & Poor's, said the share repurchases have no immediate impact on Federated's ratings.

Spreads on Federated's 5.9 percent notes due in 2016 widened on Tuesday by about 3 basis points to 108 basis points, according to MarketAxess.

NOTES: FEDERATED-RATING/MOODYS|LANGEN|ABN|E|RBN|U|D|RNP|DNP|PCO;
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